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TAGS: [PGOV](#) [PREL](#) [ECON](#) [EFIN](#) [ETRD](#) [SENV](#) [ENRG](#)  
OREP (PELOSI, NANCY), HK  
SUBJECT: CODEL PELOSI MEETING WITH HONG KONG CHIEF  
EXECUTIVE TSANG

Classified By: Consul General Joe Donovan for reasons 1.4 (B,D).

¶1. (C) Summary: In a meeting with CODEL Pelosi May 29, Chief Executive (CE) Donald Tsang stressed the close economic links and shared values between the United States and Hong Kong. He also touted Hong Kong's efforts to address climate and energy issues, including government-to-government cooperation with Guangdong province and support for Hong Kong-invested companies on the Mainland to improve environmental performance. While noting the resilience of Hong Kong's economy, underpinned by strong banks and financial markets, he nevertheless fears Hong Kong will face more challenges before the economy improves next year. Expressing support for the Obama administration's stimulus efforts as "correct under the circumstances," he also warned that the United States would eventually have to deal with its deficits in order to truly benefit from economic recovery. Admiring Hong Kong's innovative spirit, Speaker Pelosi and her delegation expressed the hope that Hong Kong could help lead China in addressing climate issues in a transparent and accountable fashion. The Speaker reassured CE Tsang that the recent stimulus package was scrutinized closely with an eye to deficits, and there was little appetite for further large packages. She also stressed the importance of dealing with the environment and energy, as well as health care, in addressing the issues posed by the financial crisis. End summary.

¶2. (C) Hong Kong Chief Executive (CE) Donald Tsang welcomed CODEL Pelosi to Government House for a thirty-minute call May 29. Tsang stressed the importance of the Hong Kong-U.S. partnership, noting the US\$ 66 billion in trade, the 1,300 U.S. firms with China or Asia headquarters in Hong Kong, and one of the largest American Chambers of Commerce outside the United States. The Hong Kong dollar has been successfully pegged to the U.S. dollar for nearly three decades. Equally importantly, Tsang stressed, Hong Kong shared values with the United States in human rights and the rule of law. Hong Kong offered a level playing field for all businesses, and businesses registered in Hong Kong can also benefit from Hong Kong's Closer Economic Partnership Agreement with the Mainland. Hong Kong is a very open society -- every major press agency, Tang noted, has a bureau in Hong Kong -- but even so, it is important to visit for oneself. Thus, as "a good friend of the United States," Hong Kong "warmly welcomed" the Speaker and her delegation's visit. The Speaker thanked the CE for his warm welcome, agreeing that openness was one of Hong Kong's hallmarks, and noting she could not imagine coming to China without coming to Hong Kong. She praised Hong Kong's leadership in the economy, as well as CE Tsang's personal expertise and long career experience in economics and finance.

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Energy/Climate Change  
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13. (C) The Speaker described the delegation's discussions on the Mainland as interesting and having increased mutual understanding. She asked the CE to discuss his views of the linkage between climate and the financial crisis. CE Tsang stressed Hong Kong's climate and financial agenda were complementary. While Hong Kong's emissions per GDP were comparatively low, the environment nonetheless polled high in public interest. Tsang claimed Hong Kong as the first territory to set as its target WHO standards on emissions. Hong Kong has concluded agreements with the Mainland allowing it to move its energy sources to gas and nuclear energy from coal, allowing Hong Kong eventually to shut down coal-fired power plants. Similarly, while its rate of personal vehicle ownership is quite low for its GDP, Hong Kong uses fiscal measures like gasoline pricing and taxes to encourage mass transportation, and is also actively researching electric vehicles.

14. (C) Congressman Blumenauer asked about a new Hong Kong policy on differentiating tariffs charged by utilities based on emissions. Secretary for the Environment Edward Yau noted that, thanks to a change made by the CE, the energy and environment portfolios were both in his remit, ensuring coordination between these two issues. Regarding utility rates, as of last year, Hong Kong's utilities were under contractual obligation linking their profits to their environmental performance, with deductions made from their tariff revenues for falling below targets. Additionally, energy provided from renewable sources can earn a tariff about two percentage points higher than conventional energy. Congressman Inslee noted that similar provisions for tariff differentiation were made in the recent Waxman-Markey law on

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the environment. Yau highlighted a US\$ 190 million fund to improve environmental standards for Hong Kong buildings.

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Cooperation with the Mainland  
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15. (C) Responding to questions from Congressman Markey, CE Tsang explained Hong Kong has autonomy on issues such as the environment and in setting environmental standards. That said, the CE also stressed the interrelatedness of environmental concerns in Hong Kong and the larger Pearl River Delta (PRD). Secretary Yau remarked that Hong Kong's role was something like that of California in the United States in terms of pushing the environmental agenda forward. Tsang and Yau noted the inter-governmental dialogue which occurs in the (PRD), but also the efforts to make sure Hong Kong companies on the Mainland meet higher environmental standards. 200 Hong Kong firms now participate in programs to raise environmental standards such as the Clean Development Mechanism. Markey asked if Hong Kong saw a business opportunity as well, and Tsang assured him environmental business was a key element in Hong Kong's economic thinking.

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Financial Crisis/U.S. Deficits  
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16. (C) Hong Kong is well-positioned to weather the current financial crisis, Tsang noted. Hong Kong's banks remain well-funded ("they refuse the (government loan) money I offer them"), the financial markets remain active, and the property market has proven buoyant. Fewer small shops and restaurants have been forced to close this year than expected. Reserves are sufficient for two full years of government expenditure. Hong Kong's three stimulus packages have equaled about 5.2 percent of GDP, in addition to loan guarantees for bank lending to small- and medium-sized enterprises. That said, Tsang felt Hong Kong could expect additional difficulties before an expected upturn in the economy next year.

¶7. (C) While complimenting the U.S. administration for its efforts to address the current financial crisis, Tsang mentioned that he views U.S. balance-of-payments and fiscal deficits as a serious concern. While right now the priority was to "keep the patient alive", he warned that not dealing with the deficit would make it difficult for the United States to benefit from the economic recovery. The Speaker reassured the CE that the Congress had looked carefully at the recent stimulus package from the angle of debt. There was no stomach in Washington for another big package. In addition, the Administration and the Congress recognize bringing health care costs under control will go far in reducing health care entitlements, which will reduce spending in future.

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Participants  
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¶8. (U) U.S. Participants:

Speaker Nancy Pelosi and Mr. Paul Pelosi  
Consul General Joseph Donovan  
Rep. Edward Markey  
Rep. James Sensenbrenner  
Rep. Earl Blumenauer and son Jon Blumenauer  
Rep. Jay Inslee  
Professional Staff Members to the Speaker and Representatives

Hong Kong Participants:

Chief Executive Donald Tsang Yam-kuen  
Secretary for the Environment Edward Yau Tang-wah  
Office of the Chief Executive Staff  
DONOVAN